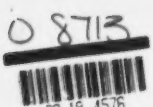

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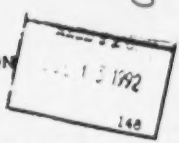
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549



FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended May 31, 1992 — Commission File No. 0-9301

SCIMED Life Systems, Inc.

(State or incorporation)	41-0990065 I.R.S. Employer Identification #

6655 Wedgwood Road, Maple Grove, MN 55311
(Address of principal executive offices) (Zip)

Registrant's telephone number, including area code (612) 420-0700

N/A
(Former name, address, and/or fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at July 2, 1992
Common Stock ($.05 Par Value)	15,006,193 shares

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SCIMED Life Systems, Inc.

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SCIMED Life Systems, Inc.

Consolidated Statements of Earnings

(Unaudited)

	Three Months Ended May 31	
	1992	1991
Net Sales	$51,265,000	$41,950,000
Cost of Sales	10,942,000	9,136,000
Gross Profit	40,323,000	32,814,000
Operating Expenses:		
Selling, General and Administrative	15,182,000	12,299,000
Royalties	5,181,000	143,000
Research & Development	4,048,000	2,546,000
Operating Profit	15,912,000	17,826,000
Interest Income	875,000	896,000
Interest Expense	254,000	--
Other Income, net	22,000	22,000
Earnings Before Income Taxes	16,555,000	18,744,000
Income Taxes	5,877,000	6,841,000
Net Earnings	$10,678,000	$11,903,000
Earnings Per Share (Note A)	$ .70	$ .78
Weighted Average Number of Common and Common Equivalent Shares Outstanding	15,238,000	15,166,000

See notes to consolidated financial statements.

SCIMED Life Systems, Inc.

Consolidated Balance Sheets

	May 31 1992	February 29 1992
ASSETS	(Unaudited)	
Current Assets:		
Cash and cash equivalents	$ 85,747,000	$ 71,484,000
Treasury note	5,031,000	5,035,000
Trade accounts receivable less allowance for doubtful accounts of $795,000 and $785,000 respectively	25,675,000	24,778,000
Receivable from Avecor Cardiovascular, Inc.	1,033,000	1,013,000
Other receivables	458,000	291,000
Inventories (Note C)	7,695,000	8,291,000
Deferred income tax asset	2,279,000	2,279,000
Prepaid expenses	1,255,000	745,000
Total Current Assets	129,173,000	113,396,000
Equipment and Furnishings, net	16,656,000	15,036,000
License Fees and Purchased Technology less accumulated amortization of $3,357,000 and $2,721,000 respectively	29,409,000	30,636,000
Investment in Heart Technology, Inc.	8,000,000	8,000,000
Long-term Deferred Income Tax Asset	586,000	586,000
Other Assets, net	984,000	741,000
	$184,808,000	$168,895,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Trade accounts payable	$ 6,555,000	$ 8,334,000
Salaries and wages payable	7,410,000	8,438,000
Current portion of license fees payable	10,184,000	10,059,000
Royalties payable	4,993,000	3,287,000
Income taxes payable	5,185,000	189,000
Other current liabilities	1,236,000	1,078,000
Total Current Liabilities	35,563,000	31,385,000
Long-term License Fees Payable	9,615,000	9,484,000
Other Long-term Liabilities	353,000	359,000
Commitments and Contingencies (Note D)		
Shareholders' Equity:		
Common stock, par value $.05 per share, authorized 100,000,000 shares, issued and outstanding 14,897,242 and 14,885,684 respectively	745,000	744,000
Additional paid-in capital	44,259,000	43,328,000
Retained earnings	94,273,000	83,595,000
	139,277,000	127,667,000
	$184,808,000	$168,895,000

See notes to consolidated financial statements.

SCIMED Life Systems, Inc.

Consolidated Statements of Cash Flows

(Unaudited)

	Three Months Ended May 31	
	1992	1991
Cash Flows From Operating Activities:		
Net earnings	$10,678,000	$11,903,000
Tax benefit relating to stock option plans and employee stock purchase plan	756,000	—
Depreciation and amortization	2,626,000	1,039,000
Deferred income taxes	—	—
Deferred rent abatement	(6,000)	(10,000)
Changes in working capital items:		
(Increase) Decrease in:		
Receivables	(1,084,000)	(2,625,000)
Inventories	596,000	236,000
Prepaid expenses	(510,000)	(445,000)
Increase (Decrease) in:		
License fees payable	256,000	—
Trade accounts payable	(1,779,000)	(583,000)
Salaries and wages payable	(1,028,000)	(1,153,000)
Income taxes payable	4,996,000	5,111,000
Royalties payable	1,706,000	—
Other current liabilities	158,000	(114,000)
Net cash provided by operating activities	17,365,000	13,359,000
Cash Flows From Investing Activities:		
Investment in equipment, furnishings and facilities	(3,020,000)	(1,099,000)
Investment in Heart Technology, Inc.	—	(8,000,000)
Other, net	(239,000)	(34,000)
Net cash used in investing activities	(3,259,000)	(9,133,000)
Cash Flows From Financing Activities:		
Sales of common stock under options, warrants and stock purchase plan	168,000	360,000
Other, net	9,000	7,000
Net cash provided by financing activities	177,000	367,000
Net increase in cash and cash equivalents	14,283,000	4,593,000
Cash and Cash Equivalents:		
Beginning of period	71,464,000	55,016,000
End of period	$85,747,000	$59,609,000

See notes to consolidated financial statements.

SCIMED Life Systems, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A

The consolidated financial statements include the accounts of the Company and two wholly owned sales subsidiaries. All material intercompany profits, transactions and balances have been eliminated in consolidation.

Earnings per common and common equivalent share are calculated by dividing the earnings (or loss) for the period by the weighted average number of common and common equivalent shares outstanding during the period, which includes the dilutive effect of outstanding stock options and warrants.

NOTE B

In the opinion of management, the unaudited financial statements contain all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position of the Company as of May 31, 1992 and the results of its operations and cash flows for the three months ended May 31, 1992 and 1991. These results are not necessarily indicative of the results to be expected for the full fiscal year.

The financial information presented herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended February 29, 1992. Certain reclassifications have been made in the May 31, 1991 financial statements to conform to those for May 31, 1992. The reclassifications had no effect on results of operations previously reported.

NOTE C

Inventories consist of the following:

	May 31, 1992	February 29, 1992
Raw Material	$1,955,000	$1,981,000
Work in Process	1,206,000	1,855,000
Finished Goods	4,534,000	4,455,000
	$7,695,000	$8,291,000

NOTE D

On April 24, 1991, a lawsuit was brought against the Company in United States District Court for the District of Minnesota by Schneider (USA) Inc. and Schneider (Europe) AG, subsidiaries of Pfizer Inc., alleging that the Company's EXPRESS™ catheter infringes U.S. patent No. 4,762,129. The Company has denied the claims and discovery is underway. On May 2, 1991, the Company filed a lawsuit against Schneider (USA) Inc. alleging patent infringement on a U.S. patent owned by the Company. The parties have stipulated to a dismissal of this action without prejudice, due to Schneider's withdrawal of the alleged infringing product from the market.

Immediately after a significant market price decline in the Company's common stock following a September 25, 1991 press release which commented on, among other items, the status of the EXPRESS catheter product line in the United States, the Company was served with several lawsuits brought by various shareholders alleging that the Company and certain officers and directors had violated state and federal securities laws. On December 27, 1991, a consolidated and amended complaint was filed in the United States District Court for the District of Minnesota alleging similar securities law violations and seeking class action certification. An answer was filed by the Company denying all claims, and discovery has commenced. The Company believes the lawsuit is without merit and intends to vigorously defend itself.

SCIMED Life Systems, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Three Months Ended May 31, 1992 and 1991

Results of Operations

Net sales for the three months ended May 31, 1992 were $51,265,000, an increase of $9,315,000, or 22 percent, over the comparable period in the prior year. Excluding prior year sales of the Surgical Division sold in June 1991, net sales increased 29 percent. Sales increased significantly due to the continued expansion in the number of models and sizes of angioplasty catheters marketed by the Company. New product introductions during the past year include the MIRAGE™, COBRA 14™ and COBRA 10™ balloon catheters and the 8F TRIGUIDE INTERMEDIATE™ guide catheter. Price increases accounted for approximately 4 percent of sales growth for the three months ending May 31, 1992. International sales for the three months ended May 31, 1992 increased 50 percent over the prior year. Although management expects continued growth of the worldwide coronary angioplasty market, the rate of growth is likely to decrease.

Cost of sales represented 21 percent of net sales for the three months ended May 31, 1992, compared to 22 percent for the comparable period in the prior year. This decrease as a percentage of net sales was due to greater sales of higher margin cardiology products and higher production volumes which favorably affected unit costs. Cost of sales is expected to increase as a percentage of net sales due in part to additional costs to be incurred in connection with the start-up of manufacturing operations internationally, as well as to amortization of certain license fee payments to be made in connection with the November 1991 settlement of patent litigation with Advanced Cardiovascular Systems, Inc. (ACS), a subsidiary of Eli Lilly and Company (see Note D of Notes to Consolidated Financial Statements in the Company's 1992 Annual Report to Shareholders).

Selling, general and administrative expenses for the three months ended May 31, 1992 increased by $2,883,000 or 23 percent over the comparable period in the prior year. However, selling, general and administrative expenses remained relatively constant as a percentage of net sales at 29.6 percent for the three months ended May 31, 1992 compared to 29.3 percent for the same period in the prior year. The dollar increase was primarily due to increased commissions on the higher sales volume, an expansion of the sales force and increased marketing expenses.

Research and development expenses for the three months ended May 31, 1992 increased by $1,502,000, or 59 percent, and increased as a percentage of net sales from 6.1 percent to 7.9 percent over the comparable period in the prior year. The increase was due to spending on new product programs for both the cardiology and

peripheral vascular intervention markets. The Company believes that sizable R&D expenditures are necessary given the nature of its business, and expects to increase R&D spending in fiscal 1993 by at least 50 percent over the prior fiscal year.

Royalty expense relates primarily to the ACS settlement. The combination of royalties and amortization of license fees in connection with the settlement is anticipated to aggregate between 10 percent and 12 percent of net sales in fiscal 1993.

Interest income decreased two percent for the three months ended May 31, 1992 over the comparable period in the prior year, reflecting lower prevailing interest rates on higher cash balances.

Interest expense for the three months ended May 31, 1992 is attributable to imputed interest on the license fee payments to be made to ACS.

For the three months ended May 31, 1992, the income tax provision was determined using an estimated effective tax rate of 35.5 percent compared to 36.5 percent for the comparable period in the prior year.

Financial Condition

Working capital increased to $93,610,000 at May 31, 1992, compared to $82,511,000 at February 29, 1992. The increase was due primarily to funds provided by operations of approximately $17.4 million, partially offset by capital expenditures of $3.0 million. The Company expects that capital expenditures will increase significantly in future periods as the Company expands its facilities, research and development and production capacities.

The Company believes that its present cash balances, together with cash generated from operations, will be sufficient to fund its anticipated operating and capital requirements for the foreseeable future.

Part II: Other Information

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of the Registrant was held on June 30, 1992. The only matter voted upon at the meeting, other than the election of directors and approval of auditors, was a proposal to approve and ratify the adoption of the 1992 Stock Option Plan. This proposal passed, receiving 12,593,879 affirmative votes, 1,042,695 negative votes and 67,040 abstaining votes.

Item 5. Other Information

On March 27, 1992, the Company entered into a Separation Agreement with Christian Mazzola, its Senior Vice President of Sales & Marketing, pursuant to which Mr. Mazzola resigned as an employee of the Company effective March 31, 1992. The Agreement provided that Mr. Mazzola was to receive severance pay for up to 12 months of base salary (not to exceed a gross total of $140,000) through the earlier of Mr. Mazzola's commencement of employment with another employer or March 31, 1993 as well as reimbursement of up to $15,000 for outplacement counseling. The Agreement also provided that the Company would waive the requirement that Mr. Mazzola be employed on the payout date in order to be considered for a bonus under the Management Incentive Plan for fiscal 1992. Finally, the Agreement also accelerated the exercise date of 10,000 of the 12,333 options to purchase shares of the Company's common stock granted under the 1987 Non-Qualified Stock Option Plan that were scheduled to become exercisable March 31, 1993. Mr. Mazzola exercised all 10,000 of these options on June 26, 1992 at an exercise price of $20.00 per share.

On April 16, 1992 the Company announced that Randall F. Bellows had been elected to fill a vacancy on the Board of Directors. Mr. Bellows is co-founder and a Director of Cobe Laboratories, Inc. from which he retired as Executive Vice President in 1990.

On June 1, 1992 the Company announced that it has signed an agreement with American Home Products Corporation ("AHPC") which will enable the Company to begin manufacturing angioplasty catheter products in Belgium prior to the end of its fiscal year, ending February 28, 1993. The agreement with AHPC provides for a period ending in mid-1992 during which AHPC's Belgian subsidiary, Sherwood Medical S.A. ("SMSA"), will provide contract manufacturing services for the Company. At the end of that period, the Company intends to purchase a newly formed subsidiary of SMSA to which certain SMSA assets, including the land, building, sterilization facilities and certain other equipment, will have been contributed. Under terms of the agreement, the Company will also assume, upon purchase, certain employer responsibilities for approximately 190 current SMSA employees.

On July 9, 1992 the Company purchased approximately 62 acres of land in Maple Grove, a northwestern suburb of Minneapolis, Minnesota, on which it intends to consolidate some of its operations over an extended period of time. In July of this year the Company intends to begin construction on a 150,000 square foot building to primarily house new product and process development and pilot production activities

along with most corporate functions. Construction is scheduled to be completed in September 1993. The projected cost of the land and construction of the first phase is approximately $20 million. The Company does not intend to obtain construction financing but does plan to arrange for permanent financing once the facility is completed.

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

(10.1) Separation agreement dated March 27, 1992 between the Company and Christian L. Mazzola.

b) Reports on Form 8-K

None during the three months ended May 31, 1992 and through the date of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SCIMED Life Systems, Inc.

by: _____
Dale A. Spencer
President and Chief Executive Officer
(Principal Executive Officer)

_____
Craig R. Dvorak
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: July 10, 1992

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS
TO
FORM 10-Q

For the Quarter Ended May 31, 1992

SCIMED Life Systems, Inc.

EXHIBIT INDEX

Exhibit No.	Description	Page No.
10.1	Separation Agreement dated March 27, 1992 between the Company and Christian L. Mazzola.	15

SEPARATION AGREEMENT

This Separation Agreement is made and entered into this 27 day of March, 1992, between Christian L. Mazzola ("Employee") and SciMed Life Systems, Inc., a Minnesota corporation ("Employer").

Recital

The purpose of this Separation Agreement is to set forth the terms and conditions under which Employee and Employer will terminate their employment relationship.

In consideration of the recital stated above and the mutual promises made below, the parties agree as follows:

1. Resignation. Employee hereby offers and Employer hereby accepts his resignation as an employee of Employer effective with the close of business on March 31, 1992. Employee and Employer both agree to refrain from any disparagement of the other party in any discussion with third parties. Employee agrees not to seek reemployment with the Employer. The Employee agrees that he will meet with Dale Spencer prior to April 10, 1992, to reach agreement regarding mutually acceptable information which the Employer may release to prospective employers of the employee, and other members of the medical device and business communities, and other persons with a need to know, and on other orderly transition matters.

2. Severance Settlement. Employee will receive severance payments for up to 12 months of base salary, (not to exceed a gross total of $140,000.00), to be paid at the same interval as salary payments formerly were paid and subject to FICA and income tax deductions. The Employee's right to receive severance benefits and reimbursement for the cost of insurance coverage under this Agreement will end upon the Employee's commencement of employment with another employer, or on March 31, 1993, whichever occurs first. In addition Employee will be permitted, after March 31, 1992, and before July 1, 1992, to exercise 10,000 shares (at the exercise price of $20.00) of the 12,333 shares of stock options which would otherwise vest and be available to him on March 31, 1993, provided that any such stock shares acquired pursuant to these options shall be issued subject to the restrictions that they shall not be sold prior to the close of business on July 31, 1992 and that they are subject to partial forfeiture pursuant to paragraph 10. The Employer's Board of Directors will, in determining the amount of the Employee's management incentive payout for the fiscal 1992 year, treat the Employee consistently with other employees. The Employer agrees that the amount of the Employee's management incentive payout will be based on Employer's performance and on Employee's performance, as measured against Employee's fiscal 1992 objectives, and will be determined in the same manner and course as for other senior

executives. The Employer waives its requirement that the Employee be employed on May 15, 1992, in order to be eligible for this payout. Employee shall remain entitled to any benefits which have accrued and are vested as of March 31, 1992. Except as provided in this paragraph and paragraph 3, all other forms of compensation and benefits of employment shall cease as of March 31, 1992.

3. Insurance. From April 1, 1992 through May 31, 1992, the Employee may continue his insurance coverage under the Employer's plan pursuant to the exercise of his rights (as modified by this Agreement) under COBRA. The Employee agrees that he will be responsible for obtaining his own individual and dependent health and life insurance coverage beginning June 1, 1992. If the Employee is unable, by June 1, 1992, to secure insurance coverage comparable to what he currently has, the Employee may continue the current insurance coverage by continuing his coverage under COBRA for ten additional months. On April 1, 1993, or when the Employee commences employment elsewhere, whichever occurs first, the Employee's coverage under the Employer's insurance plan shall terminate. Except as otherwise provided in this paragraph, the Employee waives any rights he may have under state or federal law to continue the Employer's group health, dental and life insurance. In exchange for the Employee's waiver of his right to continue his group health and life insurance coverage, the Employer agrees to reimburse the Employee in an amount not to exceed the cost to the Employee of converting his current health insurance coverage into his own name (estimated to be $315.00 per month) for ten months beginning June 1, 1992, or until the Employee becomes employed elsewhere, whichever occurs first.

4. Return of Property. Employee agrees to return to Employer's office his keys and security cards and any other tangible or intangible property of Employer, including financial and business reports and records, sales and marketing materials and any and all correspondence and documents that Employee has in his possession, including all copies thereof, irrespective of the form or medium of such materials, and including all word processing or computer data or records of such material. The parties agree that they will, within 14 days of the execution of this Agreement, meet to review what if any Employer property the Employee may retain. The Employer shall have complete discretion to decide which Employer property the Employee must return.

5. Transition Procedure. Employee agrees to provide Employer with status reports concerning all projects with which he was engaged at the time of his separation from employment and to be reasonably available during the period of the payments provided

for under paragraph 2 for brief reports concerning such matters. Such reports shall generally be verbal, provided that Employer may reasonably request written reports from time to time.

6. Mutual Releases. In consideration of the payments and other undertakings stated herein, Employee agrees to execute a separate Release ("Release") in the form attached hereto as Exhibit A, which is herein incorporated by reference, at the same time he executes this Agreement. In consideration of Employee's undertakings set forth herein, including his execution of the separate Release attached hereto as Exhibit A, Employer agrees to give up all of the claims which it has against Employee, whether or not Employer now knows about these claims, provided that neither the Employer nor the Employee release the other party with respect to claims which may arise after March 31, 1992, including but not limited to claims which may arise under Employee's Employment Agreement dated April 18, 1990.

7. Mutual Confidentiality. The terms of this Agreement and the Release will be treated as forever confidential by the Employee and the Employer, except that the Employer shall be permitted to release information to prospective employers and other members of the financial or medical device products communities, or other persons with a need to know, in accordance with the language agreed upon between the Employee and the Employer's President. Otherwise, the terms of the Agreement will not be disclosed by the Employee to anyone except his attorney, accountant, tax adviser, state or federal tax authorities and spouse, unless a court order specifically directs such disclosure and then only within the strict limits of that order, unless agreed to in writing by the Employer. Employee recognizes and agrees that this confidentiality provision was a significant inducement for the Employer to enter into this Agreement.

8. Outplacement Services. The Employer agrees to reimburse the Employee for the cost of outplacement counselling with Drake, Beam & Morand in an amount not to exceed $15,000.00.

9. Survival of and Reaffirmation of Employment Agreement Dated April 18, 1990. In consideration of Employer's undertakings in paragraphs 1, 2, 3 and 6, and prior consideration received, Employee specifically agrees that Employee's Employment Agreement dated April 18, 1990 survives the termination of his employment, is unaffected by this Agreement or the Release and is binding upon Employee until March 31, 1994, provided that Employee waives any right to payments pursuant to paragraph 4(d) of the Employment Agreement dated April 18, 1990, in consideration of the payments to be made pursuant to paragraphs 2 and 3 of this Agreement. Employee's obligation to keep secret and refrain from use of confidential and trade secret information, however, shall not cease as of April 1, 1994, but shall continue thereafter without limitation.

10. **Material Breach**. Any breach by Employee of paragraphs 4, 5, 6, 7, or 9 of this Agreement, or of the Release, or of the Employment Agreement dated April 18, 1990, and any breach by Employer of paragraphs 1, 2, 3, 6, 7 or 8 of this Agreement will be deemed a material breach of this Agreement. In the event of a material breach by Employer, Employee is released of any obligations under this Agreement. In the event of any material breach by Employee, Employer is released of any obligations under this Agreement and may require repayment by Employee of any and all amounts paid by Employer to Employee or to third parties on Employee's behalf pursuant to this Agreement, and payment by Employee of the value to Employee of any other benefit received pursuant to this Agreement. In addition, in the event of such breach by Employee on or prior to July 31, 1992, the Employer, upon ten (10) days written notice to Employee's known address, may repurchase any stock shares acquired by Employee pursuant to the March 31, 1993 stock option, accelerated to March 31, 1992 pursuant to paragraph 2, at the stock option exercise price paid by Employee and Employee shall forfeit any additional value or appreciation of such stock. The restrictions imposed by this paragraph and paragraph 2 will be disclosed on the face of any stock certificates covered by such restrictions in the form attached as Exhibit B.

11. **Rescission/Revocation**. Employee may consider and decide to rescind/revoke (cancel) this Agreement and Release pursuant to the Minnesota Human Rights Act and the Age Discrimination in Employment Act, within twenty-eight (28) days of execution, and the Agreement and Release will not be effective or enforceable until the expiration of this rescission/revocation period. To be effective, his rescission/revocation must be in writing and delivered to Cecily Hines, Esq. at SciMed Life Systems, 6655 Wedgewood, Maple Grove, MN 55369, either by hand or by mail within the 28-day period. If sent by mail, the rescission/revocation must be:

a. Postmarked within the 28-day period;
b. Properly addressed to Employer; and
c. Sent by certified mail, return receipt requested.

If Employee rescinds/revokes this Agreement and Release, Employer will be released of any obligations pursuant to this Agreement and will be entitled to return of any payments made to Employee or to third parties on Employee's behalf or repayment of the value of benefits received by Employee prior to Employee's rescission/revocation. Rescission/revocation of the Release will be deemed to be rescission/revocation of the Agreement and vice versa.

12. **Non-Admission**. Nothing in this Agreement is intended to be, nor shall it be deemed to be, an admission of any contract breach, liability or wrongdoing by Employer under any state or federal statute, local ordinance or principle of common law.

13. **Entire Agreement**. This Agreement and the Release supersede all prior oral and written agreements and communications between the parties, including but not limited to the Employment Agreement dated May 16, 1990 and the letter of Mr. Dale A. Spencer to Employee dated December 19, 1989, but excluding the Employment Agreement dated April 18, 1990 which survives this Agreement.

14. **Partial Invalidity**. If for any reason a court of competent jurisdiction finds any provision of this Agreement to be unenforceable, the offending provision shall be deemed amended to the extent necessary to conform to applicable laws or regulations, or if it cannot be so amended without materially altering the intention of the parties, it shall be severed herefrom. In either event the remainder of the Agreement shall continue in full force and effect.

15. **Governing Law**. This Agreement and the Release will be construed and interpreted in accordance with the laws of the State of Minnesota.

16. **Voluntary and Knowing Action**. Employee acknowledges that he has read and understands the terms of this Agreement and the Release, that he has had the prior opportunity to consult with an attorney of his choice concerning the terms of this Agreement and Release, which Employer has encouraged him to do, and that he has voluntarily entered into this Agreement and Release for the reasons set forth herein.

IN WITNESS WHEREOF, the parties have caused this Agreement and the attached Release to be signed on the day and year indicated above.

SCIMED LIFE SYSTEMS, INC.
("Employer")

BY: _____
Its _____

_____
Christian L. Mazzola
("Employee")

DPS:1081

EXHIBIT A
RELEASE

Agreement to Release My Claims. I have received a substantial amount of money paid by the "Employer" (as defined below). I agree to give up all "My Claims" (as defined below) against the Employer in exchange. I will not bring any lawsuits, file any charges, complaints, or notices or make any other demands against the Employer based on My Claims. The Employer does not owe me anything in addition to what I have already received, except the amounts expressly set forth in the Separation Agreement dated March 24, 1992.

"My Claims" mean all of the rights that I have now to any relief of any kind from the Employer, whether or not I now know about those rights, arising out of my employment with the Employer, and my separation from employment, including without limitation, claims for salary, bonus, stock options, benefits, claims for breach of contract pursuant to the letter of Mr. Dale A. Spencer to me dated December 19, 1989, the Employment Agreements dated April 18, 1990 and May 16, 1990 or any other claimed agreement between the parties, claims for promissory estoppel, fraud or misrepresentation, violation of the Minnesota Human Rights Act, violation of the Age Discrimination in Employment Act, defamation, intentional or negligent infliction of emotional distress, breach of the covenant of good faith and fair dealing, negligence, wrongful termination of employment and any and all other claims, provided that this Release shall not affect Employee's claims under ERISAthe Employee expressly waives his rights under COBRA or Minnesota mandatory insurance benefit statutes.

"Employer" means the Minnesota corporation known as SciMed Life Systems, Inc. and all of its officers, directors, employees, successors and assigns. "Agreement" means the Separation Agreement between the parties dated March 24, 1992.

I understand that I may consider this Release and Agreement and decide to rescind/revoke (cancel) them within twenty-eight (28) calendar days of signing them, and that the Release and Agreement will not be effective or enforceable until the expiration of this rescission/revocation period. To be effective, my rescission/revocation must be in writing and delivered to Cecily Hines, Esq. at SciMed Life Systems, 6655 Wedgewood, Maple Grove, MN 55369, either by hand or by mail within the 28-day period. If sent by mail, the rescission/revocation must be:

a. Postmarked within the 28-day period;
b. Properly addressed to the Employer; and

c. Sent by certified mail, return receipt requested.

If Employee rescinds/revokes this Agreement and Release, Employer will be released of any obligations pursuant to this Agreement and will be entitled to return of any payments made to Employee or to third parties on Employee's behalf or repayment of the value of benefits received by Employee prior to Employee's rescission/revocation. Rescission/revocation of the Release will be deemed to be rescission/revocation of the Agreement and vice versa.

I have read this Release carefully and understand and agree to all its terms. I have had the prior opportunity to consult with an attorney of my choice concerning the terms of this Release, which the Employer has encouraged me to do, and have freely and voluntarily executed the Release.

Dated: March 22, 1992

Christian L. Mazzola

DPS:1091/5

EXHIBIT B
STOCK CERTIFICATE LEGEND

"The shares of common stock represented by this certificate are non-transferable and restricted subject to the terms of that certain Separation Agreement between the certificate holder and the Corporation dated March 27, 1992, a copy of which is on file with the Secretary of the Corporation. The repurchase restrictions referred to in this legend will expire at the close of business on July 31, 1992."

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